

**EXECUTIVE SECRETARIAT**  
**ROUTING SLIP**

TO:

|    |           | ACTION | INFO | DATE | INITIAL |
|----|-----------|--------|------|------|---------|
| 1  | DCI       |        |      |      |         |
| 2  | DDCI      |        |      |      |         |
| 3  | EXDIR     |        |      |      |         |
| 4  | D/ICS     |        |      |      |         |
| 5  | DDI       |        |      |      |         |
| 6  | DDA       |        |      |      |         |
| 7  | DDO       |        |      |      |         |
| 8  | DDS&T     |        |      |      |         |
| 9  | Chm/NIC   |        |      |      |         |
| 10 | GC        |        |      |      |         |
| 11 | IG        |        |      |      |         |
| 12 | Compt     |        |      |      |         |
| 13 | D/Pers    |        |      |      |         |
| 14 | D/OLL     |        |      |      |         |
| 15 | D/PAO     |        |      |      |         |
| 16 | SA/IA     |        |      |      |         |
| 17 | AO/DCI    |        |      |      |         |
| 18 | C/IPD/OIS |        |      |      |         |
| 19 | NID/BCOP  |        | ✓    |      |         |
| 20 |           |        |      |      |         |
| 21 |           |        |      |      |         |
| 22 |           |        |      |      |         |

SUSPENSE

Date

Remarks

Executive Secretary

9/19/84  
Date

3637 (10-81)

# THE WHITE HOUSE

Approved For Release 2008/10/22 : CIA-RDP86M00886R002000040002-7

Executive Registry

84- 9215

## CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/18/84 Number: 169068CA Due By: \_\_\_\_\_

Subject: Cabinet Council on Natural Resources and Environment Planning Meeting

Friday, September 21, 1984 - 2:00 P.M. - Room 208 OEOb

|                            | Action                              | FYI                                 |                          | Action                              | FYI                                 |
|----------------------------|-------------------------------------|-------------------------------------|--------------------------|-------------------------------------|-------------------------------------|
| <b>ALL CABINET MEMBERS</b> | <input type="checkbox"/>            | <input type="checkbox"/>            | CEA                      | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Vice President             | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | CEQ                      | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| State                      | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | OSTP                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Treasury                   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Defense                    | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Attorney General           | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Interior                   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Baker                    | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Agriculture                | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Deaver                   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| Commerce                   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Darman (For WH Staffing) | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| Labor                      | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | McFarlane                | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| HHS                        | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Svahn                    | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| HUD                        | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Chapman                  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| Transportation             | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Energy                     | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Education                  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| Counsellor                 | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | _____                    | <input type="checkbox"/>            | <input type="checkbox"/>            |
| OMB                        | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Executive Secretary for: |                                     |                                     |
| CIA                        | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | CCCT                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| UN                         | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | CCEA                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| USTR                       | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | CCFA                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| GSA                        | <input type="checkbox"/>            | <input type="checkbox"/>            | CCHR                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| EPA                        | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | CCLP                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| NASA                       | <input type="checkbox"/>            | <input type="checkbox"/>            | CCMA                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| OPM                        | <input type="checkbox"/>            | <input type="checkbox"/>            | CCNRE                    | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| VA                         | <input type="checkbox"/>            | <input type="checkbox"/>            |                          |                                     |                                     |
| SBA                        | <input type="checkbox"/>            | <input type="checkbox"/>            |                          |                                     |                                     |

### REMARKS:

The Cabinet Council on Natural Resources and Environment will meet on Friday, September 21, at 2:00 P.M. Please note that the meeting will now be held in Room 208 OEOb.

The agenda and background paper are attached.

### RETURN TO:

☐ Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs

☒ Don Clarey ☐ Tom Gibson ☐ Larry Herbolzheimer  
Associate Director  
Office of Cabinet Affairs



L-3006

THE WHITE HOUSE  
WASHINGTON

CABINET COUNCIL ON NATURAL RESOURCES AND ENVIRONMENT

September 21, 1984

Room 208 OEOB

AGENDA

1. Naval Petroleum Reserves (CM#128)

THE WHITE HOUSE

WASHINGTON

September 18, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON NATURAL RESOURCES  
AND ENVIRONMENT

FROM: RANDALL E. DAVIS, *R.D.* EXECUTIVE SECRETARY

ISSUE: Is it in the national interest to continue production from the Naval Petroleum Reserves at their maximum efficient rates for the the next three years?

BACKGROUND:

Authority to produce oil from the Naval Petroleum Reserves (NPR) located in Elk Hills, California and Teapot Dome, Wyoming, expires on April 5, 1985, unless the President extends production for another three years. To extend production, the President must submit to Congress, on or before October 7, 1984, a report on the necessity for continued production together with a certification that such production is in the national interest. Absent a decision to extend production, the Reserves are required to be shut-in to a level that would provide for their protection, conservation, maintenance and testing. Under existing law, intermediate levels of production are not authorized.

The Naval Petroleum Reserves were established early in this century to provide an emergency supply of petroleum for U.S. naval vessels being converted from coal to oil power. A number of wells and facilities resulted from lease production in the 1920's, national defense production during World War II, and offset production in the 1950's. The Reserves have been shut-in during most of their existence, however, for emergency use.

Naval Petroleum Reserve No. 1, which is located in Elk Hills and is the largest of the Reserves, has been jointly operated under a contract executed in 1944 by the Secretary of the Navy and the Standard Oil Company of California, which owns approximately 22 percent of the lands within that Reserve. Under this contract, the United States determines the overall time and rate of production and costs of operation proportionate to its ownership interests. At the present time, Elk Hills produces approximately 134,000 barrels per day (B/D), and is the second largest producing oil field in the United States.

Although production is also occurring at Teapot Dome (NPR No. 3), this production totals only 3,200 B/D and is not considered significant for purposes of the President's decision.

In response to the Arab oil embargo, Congress authorized, in 1974, a large number of additional wells and facilities to fully develop the production capability of the Reserves. Congress then passed the Naval Petroleum Reserves Production Act of 1976 which authorized and directed production of the Reserves at their maximum efficient rates (MER) for six years, with provisions for an unlimited number of three-year extensions. Maximum efficient rates are the maximum daily sustainable rates which will permit economic development and depletion without detriment to ultimate recovery. Operation of the Reserves was transferred from the Department of the Navy to the Department of Energy (DOE) when it was established in 1977.

While preserving the national defense character of the Reserves, the 1976 Act established "national interest" as the basis on which the President could extend production. Under the Act, once the Reserves are shut-in, they can only be reopened upon a finding by the Secretary of Energy that the "production is needed for national defense purposes." This finding must be approved by the President, and the production authorized by a joint resolution of Congress. In 1981, the President decided it was in the national interest to extend production beyond April 5, 1982.

#### DISCUSSION:

The Department of Energy has recommended that the President make a finding that it is in the "national interest" to continue to produce the Naval Petroleum Reserves at their maximum efficient rates. It maintains that national defense needs can be met by continuing to produce NPR oil and that economic and national energy policy considerations weigh heavily toward continued production from the Reserves.

The Department of Defense (DOD), on the other hand, has recommended that the Reserves be shut-in. It argues that the Reserves are being depleted at a rate of approximately 9-10 percent per year, and that the utility of the NPR either as a national reserve or a defense reserve will steadily decline as production continues. Therefore, unless adequate supplies of petroleum are assured during times of emergency through some other means, DOD feels that the Reserves should be shut-in now so that they might be available when needed.

Three important considerations are discussed below:

#### National Defense:

Opponents of continued production feel strongly that shut-in of the NPR is necessary to assure that the DOD will have access to adequate supplies of oil during national defense

emergencies. DOD agrees that shut-in is not the optimum solution but that others, such as partial shut-in (which would permit rapid resumption of production) are not currently authorized by law.

Attempts to have the DOE publish procedures under the Defense Production Act to guarantee DOD and the defense industrial base access to energy supplies during national defense emergencies have not come to fruition. In addition, legislation needed to permit modification of government procurement regulations to make DOD a more desirable customer is still pending in the Congress as part of the FY 1985 DOD Authorization bill.

The Department of Energy maintains that shutting-in the Reserves, which would reduce production from the present level of about 137,200 B/D to about 4,000 B/D, is not an effective means of assuring adequate petroleum supplies for national defense emergencies. It argues that approximately six months to one year would be required to return the shut-in Reserves to full production, making them almost useless in a short-term emergency. It argues that through 1990, the amount of production available from NPR after shut-in would be less than the annual amount available from continued production, despite declining production levels.

DOE also points out that once returned to full production, the Reserves would provide less than 10 percent of DOD's potential wartime petroleum requirements, or less than 20 percent of its peacetime needs. Thus, the DOD would still be required to obtain most of its supplies from private suppliers or the Strategic Petroleum Reserve.

#### National Energy Policy:

Proponents of continued production maintain that continuing production will have a positive impact on achievement of national energy objectives because it will reduce dependence on unreliable foreign oil supplies and help avoid upward pressure on world oil prices. In addition, because of the long lag time needed to bring NPR production back on line after shut-in, DOE believes that the Reserves would not be useful to help meet a short-term supply disruption.

Opponents of continued production indicate that shut-in of NPR production would have no substantial impact on world oil prices, or our national energy policy. In 1981, when the President extended production from the NPR, there was the fear that shut-in would put upward pressure on world oil prices.

Events have substantially changed since that time. Today, OPEC is having difficulty in maintaining world oil prices and substantial excess capacity is available in the world

oil market. For this reason, shut-in of the current NPR 137,200 barrels per day output would not have an effect upon the world oil market, and shut-in would permit more of the Reserves to be available for production if there are energy supply disruptions in the future.

#### Economic Effects:

Continued production will provide over \$3 billion in net federal budget receipts over the next three years. Continuing production will also reduce the U.S. oil import bill by approximately \$4 billion during the same three year period. In addition, continuing production will avoid significant adverse impacts on the people and industry of Kern County, California. Shut-in would result in the loss of 1,000 to 4,000 jobs in the local area, and would disrupt the operations of regional crude oil pipelines and refineries.

Opponents of continued production believe that defense considerations outweigh whatever local economic effects there might be from shut-in, and that continued production will seriously impair DOD's ability to obtain access to adequate supplies of petroleum in times of emergency. In addition, they maintain that the NPR is a valuable resource which can be utilized to mitigate economic effects in times of future supply interruptions.

#### OPTIONS:

1. Continue production at maximum efficient rates.

##### Pros:

- o Provides an assured but declining supply of crude oil in response to DOD requirements during an emergency.
- o Provides net Treasury receipts of over \$3 billion between 1985 and 1988.
- o Supports national energy objectives by maximizing domestic petroleum production.

##### Cons:

- o Depletes approximately one-seventh of the recoverable reserves historically established for national defense purposes.

- o Decreases the level of daily production available to support national defense with the passage of time.
- o Fails to adequately assure a reliable supply of oil for defense needs over the long-term.

2. Shut-in the Reserves.

Pros:

- o Maintains the Reserves at a level of approximately 750 million barrels.
- o Allows the Reserves to produce at a peak of 128,000 B/D (100,000 B/D Government share), when called upon, after an indefinite period of shut-in.
- o Over the long-term, it would provide DOD with "first call" on a larger amount of petroleum than would continued production.

Cons:

- o Lowers the level of immediate response capability of the Reserves in an emergency due to the six months to one year lag time required to return the Reserves to MER production after shut-in.
- o Increases U.S. oil imports bill over \$4 billion between 1985 and 1988.
- o Causes direct and immediate layoffs of 1,000 to 4,000 people in Southern California.
- o Causes substantial disruption to Kern County oil industry.

3. Continue production at maximum efficient rates but instruct DOE, DOD and NSC to jointly develop appropriate options which will assure the DOD adequate supplies of petroleum in times of emergency. Options shall be developed for submission to the CCNRE by January 31, 1985. Legislation or appropriate regulations implementing the approved options shall be developed by February 28, 1985.



Pros:

- o Provides an assured but declining supply of crude oil in response to DOD requirements during an emergency.
- o Provides net Treasury receipts of over \$3 billion between 1985 and 1988.
- o Supports national energy objectives by maximizing domestic petroleum production.
- o Helps assure DOD of a reliable supply of oil over the long-term.

Cons:

- o Depletes approximately one-seventh of the recoverable reserves historically established for national defense purposes.
- o Decreases the level of daily production available to support national defense with the passage of time.
- o Provides less assurance of a reliable supply of oil for defense needs than would shut-in.